

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IOWA-AMERICAN WATER COMPANY	DOCKET NO. RPU-01-4
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ORDER APPROVING SETTLEMENT

(Issued August 20, 2001)

On April 17, 2001, Iowa-American Water Company (Iowa-American) filed with the Utilities Board (Board) a request for a general rate increase in temporary and final water rates. Iowa-American proposed a temporary increase that would produce additional annual revenue of approximately \$2.624 million and a permanent increase that would produce additional annual revenue of approximately \$2.993 million. On May 10, 2001, the Board docketed the proposed tariffs, TF-01-118 and TF-01-119, for further investigation and set a procedural schedule. The proceeding was identified as Docket No. RPU-01-4. The Board issued an order on July 16, 2001, allowing a temporary increase of approximately \$1.9 million to go into effect.

On August 3, 2001, Iowa-American and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a unanimous proposed settlement agreement that would resolve all outstanding issues. There are no other parties to this proceeding.

The Board has the authority to resolve contested cases by unanimous settlement. In evaluating a proposed settlement, the Board examines whether the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. Iowa Code § 17A.12(5) (2001); 199 IAC 7.2(11).

The proposed settlement provides for permanent annual revenue increases for the Clinton district of \$460,878 and the Quad Cities district of \$1,576,299, or a total annual increase of \$2,037,177. This is substantially less than Iowa-American's original proposal, which asked for an annual increase of almost \$3 million.

Under the proposed settlement, there are no changes to Iowa-American's current rate design. The proposed return on common equity for Iowa-American's parent company, American Water Works Company, is 11 percent. This yields an effective 10.454 percent return on equity for Iowa-American. The weighted cost of capital is 8.923 percent. The settlement uses essentially the same capital structure as the Board used for temporary rates and the return on common equity, while slightly lower than that used in temporary rates, falls within the range that is produced using the risk premium method. This is the method for determining return on equity that the Board has placed greater reliance on in recent years.

The percentage increase is greater for the Clinton district than the Quad Cities district. However, the percentage increases for each district are approximately the same as for temporary rates. The Clinton district is smaller and significant additions have been made to Iowa-American's rate base in Clinton. These plant additions resulted in corresponding increases to depreciation and property tax.

While the proposed settlement provides for a greater increase than the amount the Board allowed for temporary purposes, there were several issues in temporary rates where the Board found Iowa-American's proposed adjustments were not known and measurable or too speculative for purposes of determining temporary rates. Because the legislature directs the Board to determine temporary rates by applying established regulatory principles rather than examining an evidentiary record, there are often some adjustments allowed in final rates that previously were disallowed in temporary rates.

The Board, after examining the complete record of this proceeding, finds the proposed unanimous settlement is reasonable, consistent with law, and in the public interest. The settlement will be approved. Iowa-American will be required to file compliance tariffs consistent with the settlement within 20 days of the date of this order.

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed by Iowa-American Water Company on April 17, 2001, identified as TF-01-118 and TF-01-119, and made subject to investigation as part of this proceeding, are declared to be unjust, unreasonable, and unlawful.
2. The unanimous settlement agreement filed by Iowa-American Water Company and the Consumer Advocate Division of the Department of Justice on August 3, 2001, is approved.

DOCKET NO. RPU-01-4 ATTEST:
PAGE 4

3. Iowa-American Water Company shall file tariffs in compliance with the settlement and this order within 20 days from the date of this order.

4. This order constitutes the final decision of the Utilities Board in Docket No. RPU-01-4.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 20th day of August, 2001.